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SUBJECT: THE PROBLEM WITH THE RUSSIAN FAR EAST'S MORIBUND AGRICULTURE
SECTOR

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Summary

1. Primorye is no longer the prosperous and productive agricultural region it was during Soviet times. In hopes of improving the region's stagnant rural economy, Moscow announced a new regional agriculture promotion plan last March. The new plan replaces the largely unsuccessful national plan that Moscow implemented just two years ago. While keeping the same goals, the new plan shifts the burden of funding from Moscow to the regions. Farmers in Primorye continue to face a plethora of problems, outlined below, only some of which the plan addresses.

Back in the Good Old Kolhoz Days

2. Primorye had traditionally been the most productive agricultural region in the Russian Far East. In Soviet times, Primorye's produce output met the demand of its 1.5 million residents, and 60 percent of meat and milk was produced locally. Primorye lead Russian Far East rice production with 70,000 hectares yielding 113,000 tons annually.

3. Following the breakup of the Soviet Union in 1991, however, large collective and state farms suddenly lost heavy government subsidies. Livestock inventories declined, demand for feed grains plummeted, and cultivated land area dropped by half. Most farms could no longer afford to purchase new machinery and inputs, drastically reducing production. All thirteen Primorye rice producers folded. Between 1991 and 2007, land area for grain cultivation dropped by 59 percent, the livestock population decreased by 85 percent, poultry production declined by 58 percent, and overall agricultural productivity decreased by 66 percent.

Post-Soviet Case Study

4. One illustrative example of the sudden downfall of Far Eastern agriculture is the rice growing area around Lake Hanka in Southwestern Primorye. During Soviet times, the area produced abundant rice crops. After federal support declined in the 1990's, the irrigation system pumping water from the lake to the rice paddies deteriorated. Residents who suddenly found themselves in difficult economic times stole the pipes from the system to sell as scrap metal. An area that once produced a rice surplus began importing rice from farms just across Lake Hanka in China. According to Yuriy Nekras, the Director of Primorye's Agency for Irrigation and Agricultural Water Supply, restoring even just a single rice farm would cost several million dollars -- an amount that would be impossible without government support.

National Program, or Maybe Regional Plan?

¶15. The federal government launched a national program in 2006 to promote agricultural development and help farmers modernize through favorable machinery leasing terms, low-interest bank loans, and investment in infrastructure. Under the program so far, agriculture in Primorye has shown little improvement other than a slight increase in overall cultivated land area.

¶16. Two years into the program, the federal government changed tack, replacing the national program with a series of regional agricultural plans. The goals remain the same, but Moscow shifted the burden for funding projects to the regional governments. According to the Primorye Regional Agricultural Department, if implemented as planned, the project will cost 14.75 billion rubles (USD 600 million), of which 4.28 billion rubles will come from the regional budget. Bank loans and farmers' own funds would cover the rest.

¶17. Consulate contacts have expressed doubt about the effectiveness of the plan. A quick calculation shows that each of 200 agricultural enterprises, 1,900 small farms, and 155,000 private farmers currently registered in Primorye would be able to spend on average 94,000 rubles to invest over the course of four years. The average cost of a combine harvester, however, is over 500,000 rubles.

The Problems with Primorye's Agricultural Sector -----

¶18. Electricity Rates. The cost of electricity, currently at 3.2 rubles per kW, is a significant financial issue for farmers. The regional power company in 2007 implemented a new contract system that obligates farmers to a pre-set monthly power consumption amount. Thus, similar to old cell phone pricing plans, the farmer pays the set amount whether or not actual consumption reached that level, and pays triple for each kW over

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the limit. The price has proven excessive for farmers, who consider the new system unfair.

¶19. Chinese Agricultural Imports. Though total agricultural output in Primorye has increased modestly in recent years, local agriculture only supplies about half of the area's consumption needs. Some food products come from other Russian regions, but China remains the main source of produce for Primorye. Produce from China is available year round, while local fruits and vegetables are available only in summer. Supermarkets tend to sell only meat imported from China -- locally produced meat can be found only at markets. Sixty percent of meat and forty per cent of milk used in food manufacturing was imported from China last year.

¶10. Insufficient Labor Force. Out-migration from Primorye rural areas continues to increase despite efforts by the Kray administration to attract newcomers. Only one fourth of Primorye residents currently live in rural areas. Lack of economic opportunity, health services, and educational facilities leads many inhabitants to seek better opportunities elsewhere. Most migrants from rural Primorye areas resettle in Vladivostok, often leaving their rural homes unattended.

¶11. As a result, agricultural production in Primorye depends heavily on foreign labor. According to statistics provided by the Primorye Migration service, there were about 4,500 Chinese agricultural workers at local farms in 2007. In that year, one quarter of the 6,000 hectares of rice fields in Primorye were cultivated by Chinese workers, which, tellingly, produced twice the average regional yield.

¶12. Bureaucratic obstacles. Consulate contacts have stated that the biggest obstacle for farmers is not nature or the markets, but the mighty Russian bureaucracy. Procuring agricultural loans or subsidies takes a burdensome amount of time to prepare and requires literally reams of documentation.

Large agricultural companies are able to hire lawyers to facilitate the process, but small, private farmers do not have the means to. They must not only prepare the paperwork themselves, but take time from their farms to make the several hundred-kilometer trek to Vladivostok in order to submit the documents to the regional government offices.

¶13. Lack of Funding Sources. Though federal subsidies are intended to be available for all farmers, in practice most available funds are divided between a few large businesses such as Ussuriisk Poultry and Mikhailovskiy Chicken Broilers. Only five percent of the 175,000 small farms and individual entrepreneurs received financial support from the regional government last year. Low-interest agricultural loans of 15 percent are also supposedly available, but banks require collateral and do not accept the obsolete farm machinery that the farmers have to offer.

¶14. The twenty or so private agricultural cooperatives set up in Primorye over two last years under the national agriculture program have proven ineffective at raising sufficient funds to help farmers. Rosselkhozbank, the bank established under the plan to finance farmers, largely ignores small-scale farmers in favor of larger producers. As a result, small farms have little leverage and must rely their meager profits to fund investment in modernization.

Comment

¶15. Providing farmers easy credit, establishing agricultural cooperatives, and developing leasing schemes may be effective measures to increase agricultural productivity and profitability in Primorye. Though the new plan does address some of these issues, bureaucratic impediments will likely remain. Tax incentives and power subsidies, issues not addressed in the plan, would also help Primorye farmers increase profitability. The fact that Moscow has shifted the funding burden to the regions, however, shows that the Kremlin is not sufficiently committed to solving the Russian Far East's agriculture problems.

ROTHERING